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SUBJECT: NIGERIAN - CHINESE DIALOGUE

REF: STATE 24937

11. SUMMARY: China/Nigeria relations have intensified in recent years. Nigeria's role as a major oil producing nation has elicited Chinese (PRC) approaches in the energy sector and other areas. At this time, there is no dialogue between the USG and PRC regarding Nigeria. Potential areas of dialogue are in the oil and gas extraction sector and due to the PRC's increased role in the Delta, in working to assist in tempering the simmering troubles. END SUMMARY.

#### Trade Relationship Growing

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12. China's exports to Nigeria from January to December 2006 reached \$2,853,304,000, up 23.9 % from 2005. In contrast, China's imports from Nigeria from January to December 2006 were \$277,659,000, down 47.3 % from 2005. In 2005 trade volume between the two countries reached \$2.18 billion. Nigeria is China's second largest export market and fourth largest trading partner in Africa.

#### Bilateral Investments

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13. The bilateral visits of the heads of State in 2005 and 2006 have spurred closer ties. During President Obasanjo's 2005 visit to China five agreements, covering investment, telecommunication service and technical cooperation, were signed.

14. Following Chinese President Hu Jintao's 2006 visit to Nigeria, the PRC committed to invest \$4 billion in oil and infrastructure projects in Nigeria. In addition, the PRC announced the intention to take a controlling stake in Nigeria's 110,000 barrel-a-day Kaduna oil refinery and build a railroad system and power stations.

15. The Chinese state-controlled energy company China National Offshore Oil Corporation has announced a \$2.3 billion deal to buy a 45 percent stake in a substantial off-shore oil field in Nigeria. (NOTE: largest overseas acquisition for the company. END NOTE). Several Chinese companies already have constructed factories in Nigeria and more are planned for a free trade zone in the south-east of the country

16. The PRC plans to invest in the Nigerian transport sector. In October 2006, agreement was reached to help the Nigerian government put back on track the country's foundering railway system. The PRC's offer of a \$2.5 billion grant and expertise comes after the formulation of a 25-year comprehensive railway development plan that includes redesign of the existing railway tracks and expansion of the lines to new areas across Nigeria. In all, an estimated 7,800

km of standard gauge railway network, to connect all 36 state capitals and major cities in the country, will be built by concession-holders, which then will be responsible for infrastructure upgrades, expansion and maintenance, and train operations.

#### OGUN STATE SEEING CHINESE INVESTMENT

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17. According to the press, Ogun State, the home state of President Obasanjo, has seen a major increase in PRC investment. About thirty Chinese industries, have established factories in Ogun State. Also, a Chinese investor has completed three huge industrial estates in Ogun. Otunba Gbenga Daniel, Ogun State governor, has explained PRC investment in Ogun State as a testimony to the state's the private sector posture.

#### USG/CHINA DIALOGUE

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18. There has been no USG/PRC dialogue on cooperation in Nigeria. The USG and PRC are both assisting Nigeria in developing its oil and natural gas industry and China's increased role in the energy sector may be an opportunity to develop a dialogue. Moreover, Chinese engagement in the Delta region has been affected by the kidnapping of foreigners including Chinese citizens. The PRC might be persuaded to work jointly with the USG to focus on the social and economic factors that contribute to local tensions and make the Delta a dangerous place for us both to operate.

CAMPBELL